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SUBJECT: AGRICULTURE SECTOR BRACING FOR TUMULTUOUS 2009

REF: BOGOTA 7

¶1. (SBU) SUMMARY. Local experts expect the agriculture sector, which employs 24 percent of Colombia's population, to weather the 2009 economic slowdown with modest growth, insulated from the worst of the global financial credit crisis by the sector's dedicated credit institutions. Their greatest concern is a decrease in exports to the United States, Europe and Venezuela, as worldwide demand continues to shrink. Beyond economics, there is also concern about the policy impact of the upcoming departure of Agriculture Minister Andres Arias to seek higher political office. Nevertheless, producers remain confident, despite public statements to the contrary, that the GOC will step in and protect the sector if the outlook worsens. END SUMMARY.

#### 2009 Growth Uncertain

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¶2. (SBU) The agriculture sector grew by an estimated 3.9 percent in 2008, but the Ministry of Agriculture (MOA) and the Colombian Farmers Association (SAC) disagree on 2009 predictions. According to Senior Trade Advisor to the Minister of Agriculture, Andres Espinosa, the MOA forecasts the sector will grow by roughly the same amount, 3.5 to 4 percent, barring unusual climatic conditions. He said it would be a tough year for both Colombian and global agriculture, but that stable local financing would help mitigate the impact of the global financial crisis. Rafael Mejia, the President of SAC, disputed the MOA growth forecast as too optimistic, stating that the sector would most likely grow about one percent less. However, MOA and SAC agree that agriculture would be more stable than the financial, industrial and service sectors.

#### Agricultural Financial Institutions Insulated

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¶3. (U) The MOA and SAC cite the insulation of Colombia's agricultural credit institutions as the main reason for the sector's stability in 2009. The commercial Agrarian Bank (Banco Agrario) as well as Colombia's Fund For Agricultural Development (Finagro), are state-controlled institutions that exclusively finance the agriculture sector. They deal only with local resources and have no international exposure. Mejia noted, however, that the overall government fiscal cutbacks (reftel) could affect government assistance to agriculture as it would every other sector that received public credit. The Director of Credit at Finagro told us he believed that the allocations to farmers and the sector will remain consistent in 2009, but caveated that it was too early to tell.

#### Exports Threatened By Worldwide Crisis

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¶4. (U) Espinosa stated that rather than lack of financing and credit, the primary problem confronting the sector is the threat to Colombian exports posed by the worldwide reduction in food demand. (NOTE: The three biggest importers of Colombian agricultural goods are historically the U.S. (30 percent), Venezuela (21 percent) and Europe (26 percent). END NOTE.) Mejia also expressed concerned with the recessions in the U.S. and Europe, as well as falling prices for Venezuelan crude, threatening demand. While no product will be immune from the crisis, Espinosa stated that the flower sector, which makes up 17 percent of the value of agricultural exports, will be the most vulnerable in 2009. This view is not shared by all. A prominent flower grower told EconCouns that the sector was somewhat "recession proof" since consumers tend to stay and entertain more at home, helping maintain demand. The exchange rate, he pointed out, was a far more worrisome factor. SAC will also be monitoring the coffee sector, which comprises 29 percent of the value of agricultural exports. Mejia expressed confidence, though, that the GOC would quickly subsidize coffee prices if necessary. Neither the MOA nor SAC believe Ecuador's recent import restrictions will negatively impact agriculture (septel).

#### Need To Protect Farmers By Regulating Prices

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¶5. (SBU) Mejia said, however, that despite its credit programs, the GOC focuses more on consumer rather than producer interests. He highlighted the need for price controls for farmers to guarantee domestic prices beyond the two currently regulated products -- coffee and cotton. Producers of other products have little control over the prices they receive, even in difficult times. The Director of the Colombian Institute for Rural Development (Incoder), Rodolfo Soto, said that the GOC would like to further protect producers but does not have the financial resources to do so.

#### Minister Arias, The Unknown Coefficient

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¶6. (SBU) Beyond economic uncertainties, rumors that Agriculture Minister Andres Arias will soon leave the MOA to focus on his presidential candidacy are fueling concern about potential changes in GOC agricultural policies. Espinosa, confirming the rumors, told us he supports Arias in his run for either the Senate or the Presidency. Meanwhile, agricultural experts worry about prospects for future resource increases at the MOA after Arias' departure. All local experts we spoke with told us that Arias, despite sometimes making decisions based upon political calculations, brought more resources and attention to the sector than any other recent minister. Mejia stated that before this administration the MOA was of little importance in the cabinet but that now, greatly due to the closeness of the Uribe-Arias relationship, it is one of the most influential ministries.

#### Comment: Keeping Farmers Farming

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¶7. (SBU) While no one doubts 2009 will be a tough year, the agriculture sector is confident it can weather this storm. Some of the confidence remains rooted in the expectation that the GOC will act to protect the sector, despite MOA public statements to the contrary, if the economic hit is worse than expected. This expectation is not unreasonable given that agriculture employs almost one-quarter of Colombia's population. Nevertheless, meeting such an expectation in an extremely tight fiscal environment and with a newly-minted Minister at the helm could be particularly challenging for the Uribe Administration.  
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